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99th Congress
1st Session

HOUSE OF REPRESENTATIVES

ORIGINAL

# A FAMILY TAX REPORT CARD: ROUND II

COMPARING SEVEN CRITICAL TAX ISSUES FOR FAMILIES AS TREATED UNDER CURRENT LAW, KEMP-KASTEN, BRADLEY-GEPHARDT, TREASURY II, AND WAYS AND MEANS

## A STAFF REPORT

OF THE

## SELECT COMMITTEE ON CHILDREN, YOUTH, AND FAMILIES

## U.S. HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

DECEMBER 1985

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# LETTER OF TRANSMITTAL

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December 6, 1985

TO: MEMBERS
SELECT COMMITTEE ON CHILDREN, YOUTH AND FAMILIES

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I commend to your attention this staff report, "A Family Tax Report Card: Round II."

This is the second staff analysis of the major tax reform proposals now before Congress. The first report graded Kemp-Kasten, Bradley-Gephardt, Treasury II and current law on seven critical family tax issues. Using the same seven criteria, this report analyzes these reform plans and the recently approved tax reform package approved by the House Committee on Ways and Means.

This document, along with the previous study, should further assist the Committee in its efforts to promote tax fairness for the American family.

Sincerely,

George Miller

GEORGE MILLER
Chairman



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FAMILY TAX REPORT CARD: ROUND II

| | Current Law | Bradley-Gephardt | Kemp-Kasten | Treasury 2 | Ways & Means |
|---|---|---|---|---|---|
| Fair Taxes for for Large Families | F | D | A | C | B |
| Fair Taxes for Single Parent Families | D | F | A | B | C |
| Fair Taxes for Low Income Working Families | F | D | C | A | A |
| Fair Taxes for Average Income Families | F | B | D | C | A |
| Fair Taxes for Families with Two Earners | F | C | A | D | B |
| Fair Taxes for Families Using Child Care | A | D | F | A | A |
| Fair Tax Treatment of the Marriage Penalty | B | A | F | D | C |
| AVERAGE: | 1.14 | 1.71 | 2.14 | 2.43 | 3.14 |



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## Introduction

Tax reform will have a profound effect on the resources available to American families and children.

For that reason, the staff of the Select Committee on Children, Youth, and Families issued a report in August, 1985 which analyzed and compared Bradley-Gephardt, Kemp-Kasten, Treasury II, and current law, solely from the perspective of how they would affect American families. In the first analysis, Treasury II received the highest average grade, followed by Kemp-Kasten, Bradley-Gephardt, and current law.

Since that time, the House Committee on Ways and Means has approved another major tax reform package. I have asked the staff of the Select Committee to prepare a second analysis of the various tax reform proposals and the Ways and Means plan, using the same criteria as in the earlier report.

As before, the seven major family-related questions addressed are: (1) which proposals make it less costly to have children; (2) which provide the most relief to single parents; (3) which reduce taxes for low-income working families; (4) which have the lowest overall rates for the average family; (5) which have the least marriage penalty; (6) which provide the most support for child care expenses; and (7) which treat one-earner and two-earner families most fairly?

By providing these "family-based tax analyses," we hope to assist others who believe that too little attention has been paid to the tax treatment of families.

After all, the average American family with children pays over $7,000 in taxes each year, more than half of which goes to federal income taxes. Of their remaining disposable income, the same average family spends more than $5,000 for each child, mostly on food, housing, transportation, and other necessities.* Because taxes so greatly influence the final resource level available for family functioning, and because these resources are spent largely on children, tax policy has become a de facto family and children's policy.

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* In 1983, mean pre-tax income for married couple families with children was $31,841; mean after-tax income was $24,824 (Bureau of the Census). The average annual spending for that year for a 12-year-old child in families with at least $30,000 in income and no more than five children was $5,015 (U.S. Department of Agriculture).



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In addition, a family-based analysis of tax reform is appropriate simply because many of the most critical children-and family-related provisions are becoming outdated. For example, nearly all of the major reform proposals increase the exemption for children, recognizing that it has not kept up with inflation.

An equally critical change has been a demographic one -- the vastly increased number of single parents, and of families with young children where both parents, or the only parent present, works. This will make the tax treatment of child care expenditures increasingly important to more families, from all income levels.

These analyses highlight those tax provisions which most directly affect families with children. The broader analysis of each proposal will remain, as it should, with committees and researchers with broader tax and budgetary responsibilities. It is those broader analyses which will allow final conclusions to be drawn regarding the total worthiness of each reform package, in its entirety.

It is time, however, that the tax reform debate focus more intensely on those tax provisions which directly determine family resources, and compare proposals in that context. These analyses, and the "Family Tax Report Cards" provide all of us that opportunity.



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## Highlights of Family Tax Report Card: Round II

### All Plans

-- All plans, including Ways and Means, lower taxes for single-parent families, but Bradley-Gephardt actually increases the disparities in tax burdens between single parents and married couples.

-- Ways and Means and Treasury II* maintain one of the best features of current law, a tax credit for child care expenses. The greatly increased numbers of single-parent families and two-earner families would at least be able to maintain current resource levels to meet this expense. Bradley-Gephardt changes the credit to a deduction, lowering its value for low- and average-income families, while the credit is eliminated entirely under Kemp-Kasten.

-- All plans, including Ways and Means, significantly reduce the tax burden of the working poor, although Bradley-Gephardt clearly leaves room for improvement. By 1987, Ways and Means increases more than any other plan both the number of families eligible for, and the value of, the Earned Income Tax Credit.

-- All plans, including Ways and Means, provide greater tax relief for one-earner families than for two-earner families. Because Treasury II increases the maximum IRA contribution for a non-working spouse to $2,000, the greatest disparity occurs under that plan.

### Bradley-Gephardt

-- Relative to the other plans, Bradley-Gephardt, as currently designed, is excellent in its treatment of the marriage penalty, good for average-income families and average for two-earner families. It is below average for large families, low-income families and families using child care, and poor for single-parent families.

### Kemp-Kasten

-- Relative to the other plans, Kemp-Kasten, as currently designed, is excellent for large families, single-parent families and families with two earners. It is average for poor families, below average for average-income families and poor for families using child care and in its treatment of the marriage penalty.

---

* Treasury II originally proposed changing the child care credit to a deduction, which would have reduced its value for low- and average-income families. This analysis is based on Treasury II as amended to retain the credit in its current form.



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Treasury II

-- Relative to the other plans, Treasury II, as currently designed, is excellent for poor families and families using child care. It is good for single-parent families, average for large families and average-income families, and below average for families with two earners and in its treatment of the marriage penalty.

Ways and Means

-- Relative to other plans, Ways and Means, as currently designed, is excellent for low-income families, average-income families and families using child care. It is good for large families and families with two earners, and average for single parent families and in its treatment of the marriage penalty.

Conclusion

All the reform proposals, including Ways and Means, are better for families than current law.

-- Averaging the seven grades for each plan, Ways and Means heads the class with a 3.14 average; Treasury II is next with a 2.43 average; Kemp-Kasten has a 2.14 average; Bradley-Gephardt has a 1.71 average; and current law has a 1.14 average.



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## Narrative Description of Tax Analysis

### Background

-- The report card is designed to show how all families will be affected by the tax reform proposals currently before Congress.

-- The report card draws on our bipartisan Committee staff report, "A Family Tax Report Card" (August, 1985), which analyzed current law, and the three major tax reform plans, Bradley-Gephardt, Kemp-Kasten, and Treasury II, then before Congress. The current analysis includes the tax reform proposal recently approved by the House Committee on Ways and Means.

-- It specifically evaluates the provisions of each reform proposal which most directly affect certain fundamental family matters, including family formation, employment, child care, and, of course, disposable income.

-- For consistency of analysis, we continued to evaluate the plans as if all provisions would be implemented as of January 1, 1986. However, in the case of the Earned Income Tax Credit (EITC) under the Ways and Means proposal, we took the more conservative approach of using 1986 benefit and eligibility levels. In fact, the point at which the EITC begins to phase out will be raised to $9,000 in 1987, increasing both the number of families eligible for and the value of the credit.

-- The best grades were given to those proposals which provide the most horizontal equity among families, or ensure that equal-sized families with equal incomes pay equal taxes; are most progressive, or ensure that those families with more income pay a higher percentage of their income in taxes; and, which are most marriage neutral, or result in the fewest tax disparities as a result of being married.

-- These criteria, horizontal equity, progressivity, and marriage neutrality, are the three commonly accepted goals of equity under an income tax, and are used as measures of evaluating tax reform throughout our report, "Tax Policy: How Do Families Fare" (October, 1985).

-- Under the Ways and Means plan, taxpayers could only itemize deductions to the extent they exceeded $500 multiplied by the number of personal exemptions taken. The effect is to give taxpayers who itemize a $1,500 personal exemption while those who use the standard deduction would get a $2,000 exemption. To be consistent with our earlier analysis, and because it is difficult to assume the level to which different families are likely to itemize deductions, this analysis is limited to non-itemizing taxpayers.



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Rationale and Methods

1. Fair Taxes For Large Families

Rationale. There are still many large families in America (6.45 million with more than 3 children). The tax burdens for large families have increased far faster than those of small families over the past three decades, largely because of the erosion in the value of the personal exemption.

Method Used for Grading Proposals. The tax code adjusts for family size through the personal exemption. To determine how each plan treats large families, each was evaluated to determine how changes in this provision lessen the tax burden of large families. The highest grade was given to the plan which reduced large families' tax burden the most in comparison to current law. No child care expenses were assumed.

Grades. Current Law - F
Bradley-Gephardt - D
Kemp-Kasten - A
Treasury II - C
Ways and Means - B

How the Grades Were Achieved. Kemp-Kasten reduces the taxes of large families the most primarily by increasing the personal exemption to $2,000 and by allowing the exclusion of 20% of income from taxation. Ways and Means and Treasury II also raise the personal exemption to $2,000, however Ways and Means lowers taxes for large families more than Treasury II because the standard deduction for married couples ($4,800) is $800 more than the zero bracket amount (ZBA, which functions like a standard deduction) under the Administration's proposal ($4,000). Bradley-Gephardt increases the personal exemption for taxpayers to $1,600, but reduces the exemption for dependents to $1,000 from its estimated 1986 value of $1,080.

2. Fair Taxes For Single-Parent Families

Rationale. Twenty-two percent of all U.S. children now live in single-parent families, nearly double the number since 1970. The vast majority of single-parent families are female-headed families. Nearly half of all female-headed families with children are poor, even though in nearly half of these poor families, the mother works.

A single-parent family, however, can have a higher effective tax rate than an equal-sized one-or two-earner married-couple family with the same income.

Method Used In Grading Proposals. Single-head-of-household status is adjusted for in the tax code by two provisions: the zero bracket amount (ZBA), and the tax schedules for heads of households. To determine how each plan treats single-parent



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families, each was evaluated to determine the effect of changes in these provisions in lessening the disparities between single-parent families and married-couple families. No child care expenses were assumed.

Grades. Current Law - D
Bradley-Gephardt - F
Kemp-Kasten - A
Treasury II - B
Ways and Means - C

How the Grades Were Achieved. Under each of the plans, tax rates are the same for married couple families and heads of households with incomes below $25,000. (Bradley-Gephardt applies a 12 percent surtax on income in excess of $25,000 for heads of households and $40,000 for married couples, and a 16 percent surtax on income in excess of $37,500 for heads of households and $65,000 for married couples.) Therefore, the relative tax treatment of heads of households and married couples is most affected by changes in the ZBA.

Under current law, the difference in the ZBA between heads of households and married couples is $1,180. Kemp-Kasten significantly reduces the disparity in the tax obligations this causes by raising the head of household ZBA to $3,200, only $100 less than for married couples under the plan. Treasury II raises the ZBA for heads of households to $3,600, $400 less than married couples under the plan. Ways and Means raises the standard deduction for heads of households to $4,200, the highest among the plans, but it is $600 less than the standard deduction for married couples. The ZBA under Bradley-Gephardt is $3,000, fully $3,000 less than the $6,000 ZBA for married couples.

3. Fair Taxes For Low-Income Working Families

Rationale. In 1970 there were 3.5 million families with children below the poverty line. The number reached 5.35 million in 1983. Today, one out of five children, and one out of two black children, live in poverty. However, using 1986 poverty estimates, a two-parent, one-earner family with two children, earning $1,800 less than the poverty level, would be subject to income tax. Obviously, impoverished families have the least capacity to pay taxes, and the greatest likelihood of being taxed into poverty.

Method Used In Grading Proposals. Low-income working families' tax liabilities are especially affected by the level of the zero bracket amount, or standard deduction, the amount of the personal exemption, the earned income tax credit (EITC), and the tax rates. To determine how each plan treats impoverished families, each was evaluated in terms of the effect of changes in these provisions in lessening the tax burdens on low-income families.



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Grades. Current Law - F
Bradley-Gephardt - D
Kemp-Kasten - C
Treasury II - A
Ways and Means - A

How The Grades Were Achieved. By increasing the ZBA/standard deduction, personal exemption and the maximum earned income tax credit, and reducing the rate at which the EITC is phased out from 12.2 to 10 percent, Treasury II and Ways and Means actually provide a tax refund for a poverty level family of four. Under Kemp-Kasten, increases in the EITC, ZBA and personal exemption, combined with the 20% wage exclusion, reduce the tax of a poverty level family significantly, but the steeper 15% EITC phase-out rate makes that family ineligible for the credit. (It is important to note, however, that the special 20% wage exclusion does have the effect of lifting tax thresholds under Kemp-Kasten higher than under current law, Bradley-Gephardt and Treasury II: $14,125 for a one-earner family of four compared to $9,575 under current law, $11,200 under Bradley-Gephardt and $12,798 under Treasury II. The 1986 tax threshold under Ways and Means for a family of four is approximately $14,400.) Bradley-Gephardt increases the ZBA, but by raising the personal exemption only for taxpayers and not for dependents produces the least generous tax reduction of the four.

4. Fair Taxes for Average Income Families

Rationale. The average pre-tax income of families with children in 1983 was $31,841, yet rising costs make it increasingly difficult for these families to maintain a desired standard of living. For example, the median cost of an existing home in San Francisco is $134,500, and the amount of income necessary to obtain a mortgage is over $40,000. The tax burden on single-earner families is, therefore, of enormous importance.

Method Used in Grading Proposals. One of the most important determinants of middle income families' disposable income is their federal income tax liability or average tax rate. Each reform proposal was evaluated to determine the difference in average tax rates for same-sized families with equal income.

Grades. Current Law - F
Bradley-Gephardt - B
Kemp-Kasten - D
Treasury II - C
Ways and Means - A



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How the Grades Were Achieved. Ways and Means reduces taxes for average income, one-earner families the most by reducing taxable income to just over $19,000 and applying a low 15% marginal rate. Bradley-Gephardt has an even lower marginal tax rate (14%) however taxable income is substantially higher ($20,641). The 15% marginal rate that an average income family would face under Treasury II is equal to that of Ways and Means, however taxable income is higher under the Administration's proposal ($19,841). The Kemp-Kasten plan reduces the amount of income subject to tax more than the other two plans, primarily because of the 20% exclusion of earned income. However, the marginal rate assesed on taxable income is 24%.

5. Fair Taxes for Families with Two Earners

Rationale. The number of one-earner, married-couple families has declined steadily since 1970, and the number of two-earner, married-couple families has grown rapidly. In 1983, there were 17 million two-earner, married-couple families with children, and 7.2 million one-earner, married-couple families with children. Eighty percent of the women in two-earner households have husbands who earn less than $30,000. The tax treatment of families with two earners will greatly affect the resources available to these families.

Method Used In Grading Proposal. Changes in two key provisions in the tax code, the two-earner deduction and the maximum contribution allowed in an IRA account, can significantly affect the relative tax treatment of one-and two-earner couples. Each plan was evaluated to determine how changes in these provisions affect the relative tax treatment of one-and two-earner families.

Grades. Current Law - F
Bradley-Gephardt - C
Kemp-Kasten - A
Treasury II - D
Ways and Means - B

How the Grades Were Achieved. The tax rates of both one-and two-earner families are reduced under each of the reform plans, resulting in the failing grade for current law. However, under Treasury II, because a non-working spouse in a one-earner family is allowed a $2,000 IRA deduction, (rather than $250 under current law and each of the other proposals) the difference in the rates at which taxes are lowered below their current levels for one-and two-earner families is greatest under this plan (32% vs. 16%). The least amount of difference occurrs under Kemp-Kasten (17% vs. 11%), followed by Ways and Means (28% vs. 20%) and Bradley-Gephardt (27% vs. 18%). The two-earner deduction is repealed under each reform plan.



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6. Fair Taxes for Families Using Child Care

Rationale. Nearly 60% of mothers with children age 3-5, and nearly 50% of mothers with children under one, are now in the labor force. By 1990, there will be nearly three million more children under 10 in single-parent households, a fifty percent increase since 1970. The Select Committee determined, after a bipartisan nationwide investigation of child care, that "as we move towards 1990, more families will need child care .... and, the situation will worsen unless parents are given more child care options."

Method Used In Grading Proposals. Support for families with child care expenses is provided in the tax code through the child care credit, the amount of which is reduced as income rises. Since it is a credit, it is of great value to low-income families. To determine how each plan treats families with child care expenses, each proposal was evaluated in terms of the value of the credit (or deduction, or neither) in assisting families in paying for child care.

Grades. Current Law - A
Bradley-Gephardt - D
Kemp-Kasten - F
Treasury II - A
Ways and Means - A

How the Grades Were Achieved. Treasury II, Ways and Means and Current Law share the highest grades because each allows an equal tax credit for child care expenses, which helps low-and average-income families more than a tax deduction of the same amount. Under Bradley-Gephardt, low-and average-income families' ability to claim a child care deduction at their low marginal tax rates clearly reduces the value of the credit in comparison to current law. By the same token, its value for higher income families at higher marginal rates is significantly increased. Repeal of the child care credit under Kemp-Kasten obviously reduces its value to zero.

7. Fair Tax Treatment of the Marriage Penalty

Rationale. Tax rates for married-couple families can exceed those which would be paid by two single individuals earning the same income. The so-called marriage penalty has traditionally existed because the zero bracket amount, and marginal tax brackets for a joint return, are not twice that of a single return. The "two-earner deduction," introduced in 1981, reduces the marriage penalty, but does not eliminate it for many taxpayers.



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Method Used In Grading Proposals. The marriage penalty is adjusted for in the tax code primarily by the zero bracket amount and, at higher levels of income, the tax rate schedules. To determine the marriage penalty, each reform proposal was evaluated in terms of the combined effect of changes in these provisions in reducing the disparities between the tax paid by two married persons versus the tax paid on the same income by two single persons.

Grades. Current Law - B
Bradley-Gephardt - A
Kemp-Kasten - F
Treasury II - D
Ways and Means - C

How the Grades Were Achieved. This question was graded on the basis of differences in the marriage penalty for low income families, for whom the issue is most critical. Bradley-Gephardt eliminates the marriage penalty for couples with incomes below $40,000 because the ZBA for singles is exactly half that for joint fillers and the tax is a flat 14%. The marriage penalty increases for low income families under Ways and Means, Treasury II and Kemp-Kasten because the ZBA (or standard deduction) for singles is more than half the ZBA (or standard deduction) for joint filers. Under Ways and Means, the standard deduction for singles is 61% of the deduction for married couples; under Treasury II it is 72.5% and under Kemp-Kasten it is 79%.



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Tax Analysis Worksheets*

* All estimates are for 1986



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## Fair Taxes for Large Families

### Current Law

Today, the Adams family, a childless one-earner family earning $27,000 has an effective income tax rate (percentage of income going to taxes) of 12.45%. A similar, equal-income couple with four children has an effective tax rate of 9.1%.

### Bradley-Gephardt

The Adams family would pay an effective tax of 9.2%, 26% less than current law. A comparable couple with four children would pay 7.15%, 21% less than under current law.

### Kemp-Kasten

The Adams' would pay an effective tax of 12.7%, 2% more than current law. A comparable family with four children would pay 5.6%, 38.5% less than under current law.

### Treasury II

The Adams' would pay an effective rate of 10.55%, 15% less than current law. A comparable couple with four children would pay 6.1%, 33% less than under current law.

### Ways and Means

The Adams' would pay an effective rate of 10.1%, 20% less than under current law. A comparable family with four children would pay 5.7%, 37% less than under current law.



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Question # 1: Fair Taxes for Large Families

Family Type: One earner, 0 children (Adams)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $27,000 | $27,000 | $27,000 | $27,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | | | | |
| 20% Excl | | | 5,400 | |
| AGI: | 27,000 | 27,000 | 21,600 | 27,000 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 2,160 | 3,200 | 4,600 | 4,000 |
| Tax. Incom. | 4,840 | 17,800 | 14,300 | 19,000 |
| Total Tax: | 3,362 | 2,492 | 3,432 | 2,850 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 3,362 | 2,492 | 3,432 | 2,850 |
| Effective Tax Rate: | 12.45% | 9.2% | 12.7% | 10.55% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 1: Fair Taxes for Large Families

Family Type: One earner, 0 children (Adams)

| | Ways and Means |
|---|---|
| Income | $27,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 27,000 |
| S.D.: | 4,800 |
| Per. Ex.: | 4,000 |
| Tax. Incom.: | 18,200 |
| Total Tax: | 2,730 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 2,730 |
| Effective Tax Rate: | 10.1% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 1: Fair Taxes for Large Families

Family Type: One earner, 4 children

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $27,000 | $27,000 | $27,000 | $27,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | | | | |
| 20% Excl | | | 5,400 | |
| AGI: | 27,000 | 27,000 | 21,600 | 27,000 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 6,480 | 7,200 | 12,000 | 12,000 |
| Tax. Incom. | 20,520 | 13,800 | 6,300 | 11,000 |
| Total Tax: | 2,460 | 1,932 | 1,512 | 1,650 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 2,460 | 1,932 | 1,512 | 1,650 |
| Effective Tax Rate: | 9.1% | 7.15% | 5.6% | 6.1% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 1: Fair Taxes for Large Families

Family Type: One earner, 4 children

| | Ways and Means |
|---|---|
| Income | $27,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 27,000 |
| S.D.: | 4,800 |
| Per. Ex. | 12,000 |
| Tax. Incom. | 10,200 |
| Total Tax: | 1,530 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 1,530 |
| Effective Tax Rate: | 5.7% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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## Fair Taxes for Single Parents

### Current Law

With an income of $21,000, the Jones family, a single-parent household with 3 children, pays an effective tax of 10.2%. A one-earner family with two children pays 8.5%, 16.6% less than the Jones' rate. An equal-size two-earner family pays 7.6%, 25.5% less than the Jones' rate.

### Bradley-Gephardt

The Jones family would pay an effective tax of 9.0%. A similar one-earner family would pay a rate of 6.5%, 28% less than the Jones' rate under the plan. A comparable two-earner family would pay the same rate of 6.5%.

### Kemp-Kasten

The Jones family would pay an effective tax of 6.4%. A comparable one-earner family would pay 6.3%, 1.6% less than the Jones' rate under Kemp-Kasten. A two-earner family would pay the same rate of 6.3%.

### Treasury II

The Jones family would pay an effective tax of 6.7%. A comparable one-earner family would pay 6.4%, 4.5% less than the Jones' rate under the plan. A comparable two-earner family would pay the same rate of 6.4%.

### Ways and Means

The Jones family would pay an effective tax of 6.35%. A comparable one-earner family would pay 5.9%, 9.45% less than the Jones' rate under the plan. A comparable two-earner family would pay the same rate of 5.9%



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Question # 2: Fair Taxes for Single Parents

Family Type: Head of household, 3 children (Jones, assumes no child care expenses)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $21,000 | $21,000 | $21,000 | $21,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | | | | |
| . 20% Excl | | | 4,200 | |
| AGI: | 21,000 | 21,000 | 16,800 | 21,000 |
| ZBA: | | 3,000 | 3,200 | 3,600 |
| Per. Ex. | 4,320 | 4,800 | 8,000 | 8,000 |
| Tax. Incom. | 16,680 | 13,500 | 5,600 | 9,400 |
| Total Tax: | 2,140 | 1,890 | 1,344 | 1,410 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 2,140 | 1,890 | 1,344 | 1,410 |
| Effective Tax Rate: | 10.2% | 9% | 6.4% | 6.7% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 2: Fair Taxes for Single Parents

Family Type: Head of household, 3 children (Jones, assumes no child care expenses)

| | Ways and Means |
|---|---|
| Income | $21,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 21,000 |
| S.D.: | 4,200 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 8,800 |
| Total Tax: | 1,320 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 1,320 |
| Effective Tax Rate: | 6.3% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question #2 Fair Taxes for Single Parent Families

Family Type: One earner, 2 children

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $21,000 | $21,000 | $21,000 | $21,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | | | | |
| 20% Excl | | | 4,200 | |
| AGI: | 21,000 | 21,000 | 16,800 | 21,000 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Tax. Incom. | 16,680 | 9,800 | 5,500 | 9,000 |
| Total Tax: | 1,784 | 1,372 | 1,320 | 1,350 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 1,784 | 1,372 | 1,320 | 1,350 |
| Effective Tax Rate: | 8.5% | 6.5% | 6.3% | 6.4% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question #2 Fair Taxes for Single Parent Families

Family Type: One earner, 2 children

| | Ways and Means |
|---|---|
| Income | $21,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 21,000 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 8,200 |
| Total Tax: | 1,230 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 1,230 |
| Effective Tax Rate: | 5.9% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 2 Fair Taxes for Single Parents

Family Type: Two earner, 2 children (assumes no child care expenses)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $21,000 | $21,000 | $21,000 | $21,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | 1,050 | | | |
| 20% Excl | | | 4,200 | |
| AGI: | 19,950 | 21,000 | 16,800 | 21,000 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Tax. Incom. | 15,630 | 9,800 | 5,500 | 9,000 |
| Total Tax: | 1,616 | 1,372 | 1,320 | 1,350 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 1,616 | 1,372 | 1,320 | 1,350 |
| Effective Tax Rate: | 7.6% | 6.5% | 6.3% | 6.4% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 2 Fair Taxes for Single Parents

Family Type: Two earner, 2 children (assumes no child care expenses)

| | Ways and Means |
|---|---|
| Income | $21,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 21,000 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 8,200 |
| Total Tax: | 1,230 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 1,230 |
| Effective Tax Rate: | 5.9% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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## Fair Taxes for Low Income Working Families

### Current Law

The Roberts' are a one-earner family with two children earning a poverty-level income of $11,400.* Under current law, they would pay $386 in taxes, for an effective tax rate of 3.4%

### Bradley-Gephardt

The Roberts' would pay $28 in federal income taxes, for an effective tax rate of .25%, 93% less than under current law.

### Kemp-Kasten

The Roberts' would pay no income taxes under Kemp-Kasten, 100% less than under current law.

### Treasury II

The Roberts' would pay no income taxes and, because they qualify for the earned income tax credit, would receive a cash payment of $261. Their effective tax rate is -2.3%, 168% less than under current law.

### Ways and Means

The Roberts would pay no income taxes and, because they qualify for the earned income tax credit, would receive a cash payment of $261. Their effective tax rate is -2.3, 168% less than under current law.

* Estimate drawn from "The President's Tax Proposal to the Congress for Fairness, Growth and Simplicity."



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Question # 3: Fair Taxes for Low Income Working Families

Family Type: One-earner, 2 children (Roberts, assumes no child care expenses)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $11,400 | $11,400 | $11,400 | $11,400 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | | | | |
| 20% Excl | | | 2,280 | |
| AGI: | 11,400 | 11,400 | 9,120 | 11,400 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Tax. Incom. | 7,080 | 200 | 0 | 0 |
| Total Tax: | 386 | 28 | 0 | 0 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | 261 |
| Final Tax: | 386 | 28 | 0 | -261 |
| Effective Tax Rate: | 3.4% | .25% | 0.0% | -2.3% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

5/ Assumes maximum EITC and earned income limits adjusted for inflation through 1986 where applicable



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Question # 3: Fair Taxes for Low Income Working Families

Family Type: One-earner, 2 children (Roberts, assumes no child care expenses)

| | Ways and Means |
|---|---|
| Income | $11,400 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 11,400 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 0 |
| Total Tax: | 0 |
| Credits: | |
| Cld. Care | |
| EITC | -261 |
| Final Tax: | -261 |
| Effective Tax Rate: | -2.3% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses

5/ Assumes maximum EITC and earned income limits adjusted for inflation through 1986 where applicable



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## Fair Taxes for Average Income Families

### Current Law

The Andrews' are a one-earner family with two children and $31,841 in income. Under current law in 1986, their effective tax rate would be 12.5%.

### Bradley-Gephardt

The Andrews' would pay an effective tax rate of 9.1% under Bradley-Gephardt, 27% less than under current law.

### Kemp-Kasten

The family would pay an effective tax of 10.7% under the Kemp-Kasten plan, 14% less than under current law.

### Treasury II

Under the President's plan, the Andrews' would pay an effective tax of 9.3%, 26% less than under current law.

### Ways and Means

Under Ways and Means, the Andrews' would pay an effective tax of 9.0%, 28% less than under current law.



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Question # 4 Fair Taxes for Average Income Families

Family Type: One-earner, 2 children (Andrews)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $ 31,841 | $ 31,841 | $ 31,841 | $ 31,841 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | | | | |
| 20% Excl | | | 6,368 | |
| AGI: | 31,841 | 31,841 | 25,473 | 31,841 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Tax. Incom. | 27,521 | 20,641 | 14,173 | 19,841 |
| Total Tax: | 3,980 | 2,890 | 3,402 | 2,976 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 3,980 | 2,890 | 3,402 | 2,976 |
| Effective Tax Rate: | 12.5% | 9.1% | 10.7% | 9.3% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 4 Fair Taxes for Average Income Families

Family Type: One-earner, 2 children (Andrews)

| | Ways and Means |
|---|---|
| Income | $ 31,841 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 31,841 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 19,041 |
| Total Tax: | 2,856 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 2,856 |
| Effective Tax Rate: | 9.0% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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## Fair Taxes for Families with Two Earners

### Current Law

The Gordons, a one-earner family of four with $34,000 in income, and a maximum IRA contribution of $2,250, would pay an effective tax of 11.64%. The Parkers, an equal-income, two-earner family of four, with the maximum IRA contribution of $4,000 would pay an effective tax of 9.46%.

### Bradley-Gephardt

The Gordons would pay an effective rate of 8.46%, 27% less than under current law. The Parkers would pay 7.74%, 18% less than under current law.

### Kemp-Kasten

The Gordons would pay an effective tax of 9.63%, 17% less than under current law. The Parkers would pay a rate of 8.4%, 11% less than under current law.

### Treasury II

The Gordons' effective tax rate would be 7.94%, 32% less than under current law. The Parkers' rate would also be 7.94%, 16.1% less than under current law.

### Ways and Means

The Gordons' effective tax rate would be 8.36, 28% less than under current law. The Parkers' rate would be 7.59%, 20% less than under current law.



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Question # 5: Fair Taxes for Families with Two Earners

Family Type: One-earner, 2 children (Gordon)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $ 34,000 | $ 34,000 | $ 34,000 | $ 34,000 |
| Adjustments: | | | | |
| IRA | 2,500 | 2,500 | 2,500 | 4,000 |
| 2-Earner | | | | |
| 20% Excl | | | 6,800 | |
| AGI: | 31,750 | 31,750 | 24,950 | 30,000 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Tax. Incom. | 27,430 | 20,550 | 13,650 | 18,000 |
| Total Tax: | 3,957 | 2,877 | 3,276 | 2,700 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 3,957 | 2,877 | 3,276 | 2,700 |
| Effective Tax Rate: | 11.64% | 8.46% | 9.63% | 7.94% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 5: Fair Taxes for Families with Two Earners

Family Type: One-earner, 2 children (Gordon)

| | Ways and Means |
|---|---|
| Income | $ 34,000 |
| Adjustments: | |
| IRA | 2,250 |
| 2-Earner | |
| 20% Excl | |
| AGI: | 31,750 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 18,950 |
| Total Tax: | 2,842 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 2,842 |
| Effective Tax Rate: | 8.36% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 5: Fair Taxes for Families with Two Earners

Family Type: Two-earner, 2 children (Parker, assumes no child care costs)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $ 34,000 | $ 34,000 | $ 34,000 | $ 34,000 |
| Adjustments: | | | | |
| IRA | 4,000 | 4,000 | 4,000 | 4,000 |
| 2-Earner | 1,500 | | | |
| 20% Excl | | | 6,800 | |
| AGI: | 28,500 | 30,000 | 23,200 | 30,000 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Tax. Incom. | 24,180 | 18,800 | 11,900 | 18,000 |
| Total Tax: | 3,217 | 2,632 | 2,856 | 2,700 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 3,217 | 2,632 | 2,856 | 2,700 |
| Effective Tax Rate: | 9.46% | 7.74% | 8.4% | 7.94% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 5: Fair Taxes for Families with Two Earners

Family Type: Two-earner, 2 children (Parker, assumes no child care costs)

| | Ways and Means |
|---|---|
| Income | $ 34,000 |
| Adjustments: | |
| IRA | 4,000 |
| 2-Earner | |
| 20% Excl | |
| AGI: | 30,000 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 17,200 |
| Total Tax: | 2,580 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 2,580 |
| Effective Tax Rate: | 7.59% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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## Fair Taxes for Families Using Child Care

### Current Law

The Malcoms, a two-earner family of four with at least $4,800 in child care expenses, have an income of $20,000. They can claim a child care credit of $1,200. With the credit, the Malcoms have an effective tax rate of 1.3%

The Burtons, a two-earner family with two children and $4,800 in child care expenses, earn $31,841. By claiming the maximum child care credit of $960, their effective tax rate is 8.3%

The Fredricks', a similar two-earner family earning $100,000, can also claim a $960 credit, leaving them with an effective tax rate of 27.6%.

### Bradley-Gephardt

The child care credit is converted to a deduction of at most $2,400 for one child and $4,800 for two or more children. For the Malcoms, the value of the deduction is $672. Their effective tax rate is 2.8%, 115% greater than under current law.

The deduction for the Burtons is also worth $672. Their effective tax rate is 6.9%, 17% less than under current law.

The Fredricks' deduction is also worth $672. Their effective tax is 20.4%, 26% less than under current law.

### Kemp-Kasten

The child care credit is repealed. Therefore, none of the families receive any direct tax relief for child care expenses. Under Kemp-Kasten, the Malcoms' effective tax rate is 5.6%, 331% greater than under current law; the Burtons' rate is 10.7%, 29% greater than under current law and the Fredricks' rate is 18.1%, 34.4% less than under current law.

### Treasury II

The Malcoms can claim a credit of $1,200. With the credit, they woould pay no income tax.

The Burtons can claim a credit of $960. Their effective tax rate is 6.3%, 24% less than under current law.

The Fredricks can also claim a credit of $960. Their effective tax rate is 20.74%, 25% less than under current law.



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The Malcoms can claim a credit of $1,200. With the credit, they would pay no income tax.

The Burtons can claim a credit of $960. Their effective tax rate is 5.95%, 28.3% less than under current law.

The Fredricks can also claim a credit of $960. Their effective tax rate is 23%, 16.5% less than under current law.



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Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Malcom)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $ 20,000 | $ 20,000 | $ 20,000 | $ 20,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | 1,000 | | | |
| 20% Excl | | | 4,000 | |
| AGI: | 19,000 | 20,000 | 16,000 | 20,000 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Child Ca. Deduc. | | 4,800 | | -- |
| Tax. Incom. | 14,680 | 4,000 | 4,700 | 8,000 |
| Total Tax: | 1,464 | 560 | 1,128 | 1,200 |
| Credits: | | | | |
| Cld. Care | 1,200 | | | 1,200 |
| EITC | | | | |
| Final Tax: | 264 | 560 | 1,128 | 0 |
| Effective Tax Rate: | 1.32% | 2.8% | 5.6% | 0% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Malcom)

| | Ways and Means |
|---|---|
| Income | $ 20,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 20,000 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 7,200 |
| Total Tax: | 1,080 |
| Credits: | |
| Cld. Care | 1,200 |
| EITC | |
| Final Tax: | 0 |
| Effective Tax Rate: | 0% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Burton)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $ 31,841 | $ 31,841 | $ 31,841 | $ 31,841 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | 1,592 | | | |
| 20% Excl | | | 6,368 | |
| AGI: | 30,249 | 31,841 | 25,473 | 31,841 |
| ZBA: | | 6,000 | 3,300 | 4,000 |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Chld Care Deduc. | | 4,800 | | -- |
| Tax. Incom. | 25,929 | 15,841 | 14,173 | 19,841 |
| Total Tax: | 3,602 | 2,218 | 3,402 | 2,976 |
| Credits: | | | | |
| Cld. Care | 960 | | | 960 |
| EITC | | | | |
| Final Tax: | 2,642 | 2,218 | 3,402 | 2,016 |
| Effective Tax Rate: | 8.3% | 6.9% | 10.7% | 6.33% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Burton)

| | Ways and Means |
|---|---|
| Income | $31,841 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 31,841 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 19,041 |
| Total Tax: | 2,856 |
| Credits: | |
| Cld. Care | 960 |
| EITC | |
| Final Tax: | 1,896 |
| Effective Tax Rate: | 5.95% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Fredricks)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $100,000 | $100,000 | $100,000 | $100,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | 3,000 | | | |
| 20% Excl | | | 13,460 | |
| AGI: | 97,000 | 100,000 | 86,540 | 100,000 |
| ZBA: | | 6,000 | 3,300 | -- |
| Per. Ex. | 4,320 | 5,200 | 8,000 | 8,000 |
| Chld Care Deduc. | | 4,800 | | -- |
| Tax. Incom. | 92,680 | 84,000 | 75,240 | 92,000 |
| Total Tax: | 28,602 | 20,360 | 18,058 | 21,700 |
| Credits: | | | | |
| Cld. Care | 960 | | | 960 |
| EITC | | | | |
| Final Tax: | 27,642 | 20,360 | 18,058 | 20,740 |
| Effective Tax Rate: | 27.6% | 20.4% | 18.1% | 20.74% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 6: Fair Taxes for Families Using Child Care

Family Type: Two-earner, 2 children (Fredricks)

| | Ways and Means |
|---|---|
| Income | $100,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 100,000 |
| S.D.: | 4,800 |
| Per. Ex. | 8,000 |
| Tax. Incom. | 87,200 |
| Total Tax: | 23,970 |
| Credits: | |
| Cld. Care | 960 |
| EITC | |
| Final Tax: | 23,010 |
| Effective Tax Rate: | 23.01% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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## Fair Treatment of the Marriage Penalty

### Current Law

At $20,000 in income, the Hawkins', a two-earner couple with a 50/50 income split, pay about 4.9% more than two singles with the same combined income. The "marriage penalty" increases as income increases, so the Garcias, a similar two-earner couple with $50,000 in income would pay 13.14% more than two singles. At incomes above $75,000, the penalty declines as the rate of progression in tax rates flattens out. The Jacksons, a similar couple earning $100,000, would pay 12.97% more than two singles, although the actual dollar amount of the penalty would still be greater than the Garcias' because of their higher income.

### Bradley-Gephardt

The Hawkins' would suffer no marriage penalty: their tax would be exactly the same as that for two singles with a combined income of $20,000. At higher incomes, there would be a marriage penalty. The Garcias would pay 21% more than the two singles, a greater penalty than under current law. However, the Jacksons would pay 8.12% more than two singles, less of a penalty than under current law.

### Kemp-Kasten

The Hawkins' would pay 27.94% more than two singles. The Garcias would pay 6.1% more, less than the penalty they would pay under current law. The Jacksons would pay 2.41% more than two singles, over five times less than the penalty they would pay under current law.

### Treasury II

The Hawkins' would pay a tax 17.6% greater than two singles. The Garcias would pay 13.8% more, a slightly greater penalty than under current law. The Jacksons would pay 11.4% more than two singles, below the penalty they would pay under current law.

### Ways and Means

The Hawkins would pay 11% more than two singles, a greater penalty than under current law. The Garcias would pay 7% more than two singles, below the penalty they would pay under current law. The Jacksons would pay 10% more than two singles, below the penalty they would pay under current law.



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two earner, 0 children (Hawkins)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $20,000 | $20,000 | $20,000 | $20,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | 1,000 | | | |
| 20% Excl | | 4,000 | | |
| AGI: | 19,000 | 20,000 | 16,000 | 20,000 |
| ZBA: | 6,000 | 3,300 | 4,000 | 4,000 |
| Per. Ex. | 2,160 | 3,200 | 4,000 | 4,000 |
| Tax. Incom. | 16,840 | 10,800 | 8,700 | 12,000 |
| Total Tax: | 1,809 | 1,512 | 2,088 | 1,800 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 1,809 | 1,512 | 2,088 | 1,800 |
| Effective Tax Rate: | 9.0% | 7.56% | 10.44% | 9.0% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two earner, 0 children (Hawkins)

| | Ways and Means |
|---|---|
| Income | $20,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 20,000 |
| S.D.: | 4,800 |
| Per. Ex. | 4,000 |
| Tax. Incom. | 11,200 |
| Total Tax: | 1,680 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 1,680 |
| Effective Tax Rate: | 8.4% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $10,000 | $10,000 | $10,000 | $10,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | | | | |
| 20% Excl | | | 2,000 | |
| AGI: | 10,000 | 10,000 | 8,000 | 10,000 |
| ZBA: | | 3,000 | 2,600 | 2,900 |
| Per. Ex. | 1,080 | 1,600 | 2,000 | 2,000 |
| Tax. Incom. | 8,920 | 5,400 | 3,400 | 5,100 |
| Total Tax: | 862 | 756 | 816 | 765 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 862 | 756 | 816 | 765 |
| Effective Tax Rate: | 8.62% | 7.56% | 8.16% | 7.65% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

| | Ways and Means |
|---|---|
| Income | $10,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 10,000 |
| S.D.: | 2,950 |
| Per. Ex. | 2,000 |
| Tax. Incom. | 5,050 |
| Total Tax: | 757 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 757 |
| Effective Tax Rate: | 7.57% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two-earner, 0 children (Garcia)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $50,000 | $50,000 | $50,000 | $50,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | 2,500 | | | |
| 20% Excl | | | 10,000 | |
| AGI: | 47,500 | 50,000 | 40,000 | 50,000 |
| ZBA: | | 6,000 | 3,300 | |
| Per. Ex. | 2,160 | 3,200 | 4,000 | 4,000 |
| Tax. Incom. | 45,340 | 40,800 | 32,700 | 46,000 |
| Total Tax: | 8,193 | 6,912 | 7,848 | 8,000 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 9,193 | 6,912 | 7,848 | 8,000 |
| Effective Tax Rate: | 8.39% | 13.82% | 15.7% | 16% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two-earner, 0 children (Garcia)

| | Ways and Means |
|---|---|
| Income | $50,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 50,000 |
| S.D.: | 4,800 |
| Per. Ex. | 4,000 |
| Tax. Incom. | 41,200 |
| Total Tax: | 8,050 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 8,050 |
| Effective Tax Rate: | 16.1% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $25,000 | $25,000 | $25,000 | $25,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | | | | |
| 20% Excl | | | 5,000 | |
| AGI: | 25,000 | 25,000 | 20,000 | 25,000 |
| ZBA: | | 3,000 | 2,600 | |
| Per. Ex. | 1,080 | 1,600 | 2,000 | 2,000 |
| Tax. Incom. | 23,920 | 20,400 | 15,400 | 23,000 |
| Total Tax: | 4,062 | 2,856 | 3,696 | 3,515 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 4,062 | 2,856 | 3,696 | 3,515 |
| Effective Tax Rate: | 16.25% | 11.42% | 14.78% | 14.06% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

| | Ways and Means |
|---|---|
| Income | $25,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 25,000 |
| S.D.: | 2,950 |
| Per. Ex. | 2,000 |
| Tax. Incom. | 20,050 |
| Total Tax: | 3,762 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 3,762 |
| Effective Tax Rate: | 15.05% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two-earner, 0 children (Jackson)

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $100,000 | $100,000 | $100,000 | $100,000 |
| Adjustments: | | | | |
| IRA | | | | |
| 2-Earner | 3,000 | | | |
| 20% Excl | | | 16,780 | |
| AGI: | 97,000 | 100,000 | 83,220 | 100,000 |
| ZBA: | | 6,000 | 3,300 | |
| Per. Ex. | 2,160 | 3,200 | 4,000 | 4,000 |
| Tax. Incom. | 94,840 | 90,800 | 75,920 | 96,000 |
| Total Tax: | 29,072 | 21,312 | 18,220 | 23,100 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 29,072 | 21,312 | 18,220 | 23,100 |
| Effective Tax Rate: | 29.07% | 21.31% | 18.22% | 23.1% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Two-earner, 0 children (Jackson)

| | Ways and Means |
|---|---|
| Income | $100,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 100,000 |
| S.D.: | 4,800 |
| Per. Ex. | 4,000 |
| Tax. Incom. | 91,200 |
| Total Tax: | 25,370 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 25,370 |
| Effective Tax Rate: | 25.37% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

| | Present Law | B-G | K-K | Treasury II |
|---|---|---|---|---|
| Income | $ 50,000 | $ 50,000 | $ 50,000 | $ 50,000 |
| Adjustments: IRA | | | | |
| 2-Earner | 2,400 | | | |
| 20% Excl | | | 8,340 | |
| AGI: | 50,000 | 50,000 | 41,660 | 50,000 |
| ZBA: | | 3,000 | 2,600 | |
| Per. Ex. | 1,080 | 1,600 | 2,000 | |
| Tax. Incom. | 48,920 | 45,400 | 37,060 | 48,000 |
| Total Tax: | 12,867 | 9,856 | 8,894 | 10,365 |
| Credits: | | | | |
| Cld. Care | | | | |
| EITC | | | | |
| Final Tax: | 12,867 | 9,856 | 8,894 | 10,365 |
| Effective Tax Rate: | 25.73% | 19.71% | 17.79% | 20.73% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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Question # 7: Fair Tax Treatment of the Marriage Penalty

Family Type: Single, 0 children

| | Ways and Means |
|---|---|
| Income | $ 50,000 |
| Adjustments: | |
| IRA | |
| 2-Earner | |
| 20% Excl | |
| AGI: | 50,000 |
| S.D.: | 2,950 |
| Per. Ex. | 2,000 |
| Tax. Incom. | 45,050 |
| Total Tax: | 11,517 |
| Credits: | |
| Cld. Care | |
| EITC | |
| Final Tax: | 11,517 |
| Effective Tax Rate: | 23.03% |

1/ Assumes inflation in 1985 tax schedules of 3.8%; personal exemption of $1,080

2/ Assumes FICA base of $41,700

3/ Assumes implementation of tax rates January 1, 1986

4/ Assumes equal income split between spouses



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APPENDIX

TAX POLICY: WHAT DO FAMILIES NEED?

A FACT SHEET

ECONOMIC SUPPORTS FOR CHILDREN HAVE ERODED

* If the personal exemption, the primary means by which the tax code adjusts for family size, had been indexed for inflation since 1948, ($600 then) it would be worth over $2,600. It is currently $1,000.

* In 1950, a two parent family of four earning $5,800 (the equivalent of $25,000 in 1984 dollars) paid $197 or 3.4% of their income in federal income taxes. (CRS, 1985)

* In 1984, a similar family earning $25,000 paid $2,679 or 10.7% of their income in federal income taxes, an increase of 215% in the percentage of income paid in income taxes. (CRS, 1985)

* The Social Security payroll tax, a flat-rate tax on earnings, has more than doubled since 1960, from 3% to over 7% in 1985. (CDF, 1985)

LOW INCOME FAMILIES ARE LOSING GROUND

* Between 1975 - 1980, a family of four with poverty level income paid no income taxes. In 1984, a four person family earning $8,783, more than $1,800 below the poverty line ($10,613 for a family of four) paid income taxes, as did a family of six earning $9,719, $4,500 below the poverty line ($14,219 for a family of six). (JCT, 1984)

* In 1978, a family of four at the poverty line paid $403 in payroll taxes and received $134 in refundable Earned Income Tax Credits for a total federal tax burden of $269. In 1984, a similar low income family paid $711 in payroll taxes and $365 in income taxes for a total federal tax burden of $1,076, an increase of 300%. (JCT, 1984)

* Despite legislative changes in 1984, the real value of the Earned Income Tax Credit, the primary tax-related work incentive for low income families, is below its 1982 level and will continue to decline after 1985 because it is not indexed for inflation. (W&M, 1985)

* Between 1972 and 1984, the average total real income of a working poor single mother of 3, including poverty level wages, AFDC, Food Stamps and federal tax benefits or expenditures, declined by over 22%, from $13,361 to $10,372 in 1984 dollars (W&M, 1985)



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TAX BURDENS ARE NOT EVENLY DISTRIBUTED AMONG FAMILIES

* Between 1966 and 1985, total federal, state and local taxes paid by the poorest one-tenth of the population rose from 17% of their income to 22%, while all taxes for the wealthiest tenth dropped from 40% to 25.5%. (Pechman, Brookings Institution, 1985)

* Changes in federal tax laws in 1981 and 1982 provided average tax reductions for families with incomes under $10,000 of $70 between 1983 and 1985. The average gain for families earning between $40,000 and $80,000 was $9,060, and for families earning $80,000 and over, the average gain was $24,600. (CBO, 1984)

* In 1982, nearly 70% of the 5 million families claiming the Dependent Care Credit had adjusted gross incomes above $20,000. Only 6% of all families claiming the credit had incomes below $10,000 and less than 5% of the estimated $1.5 billion in credits went to these families. (IRS, 1984)

* Since 1960, the percentage of total federal revenue raised through income and payroll taxes on individuals and families has increased from 59.9% to 80.7% in 1984, while the percentage of revenues raised through corporate taxes has declined from 23.2% to 8.5%. (Citizens for Tax Justice, 1985)

FAMILIES OF EQUAL SIZE AND INCOME RECEIVE DIFFERENT TAX TREATMENT

* In 1984, a single parent of three school-aged children earning $25,000 paid $3,212 in income taxes, assuming no child care expenses were claimed. Because the zero bracket amount (standard deduction) is lower for single heads of households than it is for married couples, and because tax rate schedules differ for these two groups, a married, single-earner couple with two children earning the same $25,000 paid $2,679 in income taxes, $533 or 17% less than the single parent. (CRS, 1985)

* In 1984, a one-earner married couple with two children earning $25,000 paid $2,679 in federal income taxes. A two-earner family that claimed the maximum dependent care credit (unavailable to one-earner families) and the deduction for working couples paid $1,356 in income taxes on $25,000 in earnings, $1,323 or 49% less than the one-earner couple. (CRS, 1985)

FAMILY INCOME DECLINES, CHILD-REARING COSTS REMAIN HIGH

* A median income family of four in which the mother works part time will spend $82,400 (in 1981 prices) to raise a child to age 18, an average of nearly $4,600 per child per year. (Espenshade, Urban Institute, 1985)



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* Over the past five years, median family income has declined by over 9% in real terms, from $26,885 in 1979 to $24,580 in 1983. (Census Bureau, 1984)

* In 1981, the USDA estimated a moderate standard of living for a family of four to be $25,400. At that time, the average industrial wage was $13,270, 52% of the income necessary for a moderate standard of living. (Schorr, Case Western Reserve University, 1984)

* Between 1980 and 1983, American families lost $323 billion in income (in 1982 dollars after accounting for taxes and transfers) averaging $3,837 per family -- due largely to unemployment. (Sawhill, Urban Institute, 1984)

WOMEN ARE WORKING TO SUPPORT FAMILIES

* Since 1960, the percentage of families with both the husband and wife in the labor force nearly doubled, from 25.5% to 49% In 1984, more than 50% of all working wives had husbands who earned less than $20,000. (Census Bureau and BLS, 1984)

* The number of female headed families has increased from 4.4 million in 1960 to 9.5 million in 1983. Nearly half of all single mothers with children work and nearly half of all female headed families with children are poor. (Census Bureau and BLS, 1984)

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BLS -- Bureau of Labor Statistics
CBO -- Congressional Budget Office
CDF -- Children's Defense Fund
CRS -- Congressional Research Service
IRS -- Internal Revenue Service
JCT -- Joint Committee on Taxation
W&M -- Committee on Ways and Means



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